

## GOVERNMENT-WIDE SUPPORT

### I. OVERVIEW

The eleventh major program in the State program structure is Government-Wide Support. The program's overall objective is to enhance effectiveness and efficiency of State programs by providing executive direction, program coordination and policy development, as well as a wide variety of services supporting work of the State government as a whole or common to all or most programs.

Government-Wide Support is composed of three principal sub-programs:

- Executive Direction, Coordination and Policy Development
- Fiscal Management
- General Services

These sub-programs are distinguished by uniqueness of their respective operational processes and forms of output.

Organizationally, the Government-Wide Support Program primarily involves the Executive Offices of the Governor (GOV) and Lieutenant Governor (LG) and the central services departments - the Departments of Accounting and General Services (DAGS), Attorney General (AG), Budget and Finance (B&F), Human Resources Development (DHRD), and Taxation (TAX). Additionally, the Departments of Land and Natural Resources (DLNR) and Business, Economic Development and Tourism (DBED) are involved to some degree in the program.

A wide variety of activities are performed under the Government-Wide Support Program to achieve the objective of efficient State government operations and programs. They include: policy development and implementation; providing of economic information, statistics, and forecasts; revenue collection; accounting and auditing; funds management; legal services; personnel services; property management; employee fringe benefit administration; construction and maintenance of facilities; and other support services.

The operating programs under Government-Wide Support do not generally have extensive working relationships with their federal and county counterparts. However, a few component programs - the Victim Witness program, Career Criminal Prosecuting Units, Coastal Zone Management program and State Plan - involve significant interaction with federal and county governments.

Table I-1 illustrates the capital investment and operating costs of the Government-Wide Support Program. The annual total cost over the budget and planning period increases from \$1,714.1 million in FY 2006 to \$1,820.9 million in FY 2011. The annual total operating and current lease payment costs increase from \$1,605.2 million to \$1,820.9 million.

Capital investment costs total \$199.7 million for FB 2006-07. Each fiscal year, at least \$45 million is transferred to the State Educational Facilities Improvement special fund and \$30 million is transferred to the Hawaiian Home Lands Trust Fund. It is noted that no capital investment costs are reflected for the planning period because projects are under review.

Increases in the operating budget reflect additional costs for debt service, health benefits premiums, and employer's contributions for the Employees' Retirement System (ERS) and social security and Medicare.

Current lease payments represent the costs of acquiring office buildings and computer systems using certificates of participation or other financing agreements.

TABLE I-1  
INVESTMENT AND OPERATING COSTS  
GOVERNMENT-WIDE SUPPORT

	F i s c a l   Y e a r s							
	Actual <u>2003-04</u>	Est. <u>2004-05</u>	Rec. <u>2005-06</u>	Rec. <u>2006-07</u>	<u>2007-08</u>	P r o j e c t e d		
						<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
A. <u>Costs of the Recommended Program</u> <sup>A/</sup>								
Capital Investment	151.7	326.0	108.9	90.8	...	...	...	...
Operating	1,151.5	1,334.0	1,599.4	1,685.2	1,734.9	1,812.9	1,765.8	1,813.3
Current Lease Payments	5.8	5.8	5.8	7.6	7.6	7.6	7.6	7.6
Tctal	1,309.0	1,665.8	1,714.1	1,783.6	1,742.5	1,820.5	1,773.4	1,820.9

<sup>A/</sup> Expenditures in millicns of dollars from all funds.

For the upcoming biennium, FB 2006-07, the total operating costs will amount to \$3,284.7 million (Table I-2). The general fund finances 44% of the costs, and interdepartmental transfers finance 51% of the costs. The interdepartmental transfers are used to show the movement of funds for fringe benefits and debt service between Formal Education (Department of Education (DOE) and University of Hawaii (UH)) and B&F.

TABLE I-2  
OPERATING COSTS OF THE GOVERNMENT-WIDE PROGRAM BY MEANS OF FINANCING  
(in \$ thousands)

	F i s c a l   Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	P r o j e c t e d		
					2008-09	2009-10	2010-11	
A. <u>Costs of the Recommended Program</u> <sup>A/</sup>								
General Fund	587,739	674,176	703,882	744,735	766,221	795,959	775,460	792,134
Special Funds	16,231	10,907	16,800	16,792	16,792	16,792	16,792	16,792
Federal Funds	8,220	11,796	12,000	11,871	11,871	11,871	11,871	11,871
Trust Funds	5,973	14,527	12,997	16,748	12,432	16,461	12,432	16,461
Interdepartmental Transfer Funds	506,356	579,098	803,749	860,258	892,839	937,153	914,545	941,317
Revolving Funds	18,869	25,396	41,931	26,751	26,752	26,752	26,752	26,752
Other Funds	8,190	18,118	8,078	8,078	7,946	7,946	7,946	7,946
Total	1,151,578	1,334,018	1,599,437	1,685,234	1,734,853	1,812,934	1,765,798	1,813,273

<sup>A/</sup> Details may not add to totals because of rounding.

## II. COST AND EFFECTIVENESS OF THE RECOMMENDED PROGRAMS

This section discusses activities, costs, and effectiveness of the three major Level II programs that constitute the Government-Wide Support program.

### EXECUTIVE DIRECTION, COORDINATION, AND POLICY DEVELOPMENT

The major objective of the Executive Direction, Coordination and Policy Development sub-program is to enhance effectiveness and efficiency of State programs by providing executive direction, policy development, program coordination, and planning and budgeting services.

The departments involved with this sub-program are GOV, LG, B&F and DBED.

The program is chiefly focused on providing overall leadership, long-range planning, and day-to-day direction. This is accomplished principally through the Executive offices and central staff agencies. As the Chief Executive of the State, the Governor sets broad goals of the State, establishes priorities and administers execution of laws according to legislative intent. The major activities of the program include: identifying and providing analyses of significant issues, problems, and opportunities confronting the State; preparing the proposed six-year program and financial plan and State budget; reviewing and approving agencies' expenditure plans, allotment requests, and requests to transfer funds among programs; reviewing capital improvement implementing actions and preparing timely capital improvement project reports; directing and coordinating the elections system; and supervising campaign contributions and expenditures.

### Statewide Planning and Coordination

The Office of Planning (OP) (BED 144), a Level IV program administratively attached to DBED, conducts statewide comprehensive, strategic and regional planning activities. OP also facilitates coordinated and cooperative planning among agencies. Specific core activities include identifying and providing analyses of significant issues, problems, and opportunities confronting the State; articulating the Administration's land use policy; presenting the State's position on land use boundary changes; conducting coastal/ocean planning and management; preparing regional studies; and developing and implementing a statewide planning and geographic information system.

OP also administers the Brownfields Cleanup Revolving Loan Fund (BCRLF) consisting of \$2 million of federal Environmental Protection Agency (EPA) funds to provide low cost loans for cleanup activities at eligible sites slated for redevelopment

and reuse. OP received an EPA Brownfields Site Assessment grant for \$400,000 to pay for environmental assessments of abandoned or underutilized former industrial properties that may be contaminated in order to allow cleanup and redevelopment. This reuse of properties is especially significant in an island state.

#### Economic Planning and Research

DBED's Research and Economic Analysis Division (READ) comprises the Level IV program, Economic Planning and Research (BED 130). The objectives of this program are to enhance and contribute to the economic development of the State by providing analyses and policy recommendations on economic issues; providing economic forecasts that contribute to long-term statewide planning and infrastructure needs assessment; conducting and reporting on basic research on the economy of the State by collecting, compiling, interpreting, and publishing data and statistics on all aspects of business activity and the economy and demographic characteristics of the State; developing and maintaining a statewide statistical reporting system.

#### Sub-Program Operating and CIP Costs

Table II-1 illustrates the capital investment, operating costs and selected measures of effectiveness of the Executive Direction, Coordination and Policy Development sub-program.

The operating costs will increase from \$384.0 million in FY 2006 to \$510.3 million in FY 2011, due to projected increases in the costs of health insurance benefits for State employees and retirees.

The capital improvement program (CIP) expenditures reflect the amounts paid into the Educational Facilities Improvement Special Fund and the Hawaiian Home Lands Trust Fund. It is noted that no capital investment costs are reflected for the planning period because projects are under review.

TABLE II-1  
INVESTMENT AND OPERATING COSTS  
EXECUTIVE DIRECTION, COORDINATION, POLICY DEVELOPMENT

	F i s c a l   Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2005-07	2007-08	P r o j e c t e d		
						2008-09	2009-10	2010-11
A. <u>Costs of the Recommended Program</u> <sup>A/</sup>								
Capital Investment	140.2	296.7	75.0	75.0	...	...	...	...
Operating	327.3	376.5	384.0	403.7	426.3	454.3	476.8	510.3
Current Lease Payments	...	...	...	...	...	...	...	...
Total	467.5	673.2	459.0	483.7	426.3	454.3	476.8	510.3
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Number of registered voters who vote as a percentage of registered voters.	...	60	...	60	...	60	...	60

<sup>A/</sup> Expenditures in millions of dollars from all funds.



## FISCAL MANAGEMENT

The objectives of the Fiscal Management sub-programs are to maximize the State's income within limits of established revenue policies and tax laws, and to maintain financial faith and credit of the State. These objectives are met by: administering an equitable system of tax assessment and efficient revenue collections; ensuring availability of funds when required and safekeeping and prudent investment of State moneys; and providing for legal, proper and prompt payment of the State's financial obligations.

DAGS, B&F and TAX manage the nine lowest-level programs that make up this Level II program.

Major activities of the Fiscal Management sub-program include: tax assessments; tax audits and collections; tax services and processing; tax research; pre-audit of vouchers and payrolls; examining, certifying and registering contracts; recording and reporting State receipts and expenditures; conducting post-audits; assessing and analyzing financial implications of proposed statewide programs and projects; reporting and assessing non-tax revenues; issuing and maintaining general obligation bonds; and managing all State funds.

In addition to external effects of economic conditions in the State and nation on the State's tax collections, the Fiscal Management program is significantly affected by provisions of the State Constitution that limit general fund expenditures and issuance of general obligation bonds.

### Sub-Program Operating and CIP Costs

Table II-2 provides an overview of the cost trends and selected measures of effectiveness in the Fiscal Management program. There are no planned expenditures for capital investment; however, operating costs of \$544.7 million in FY 2006 are projected to rise to a new total of \$605.6 million in FY 2011. This reflects increases in debt service requirements.

The selected measures of effectiveness indicate a continuation of the State's prudent management of the Fiscal Management sub-program.

- Measure No. 1 indicates annual rate of return on the State treasury investments.
- Measure No. 2 reflects a greater elapsed time between audits than was reported in the prior years.
- Measures No. 3 and 4 reflects how well TAX reviews tax returns and processing refunds.

TABLE II-2  
INVESTMENT AND OPERATING COSTS  
FISCAL MANAGEMENT

	F i s c a l   Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	P r o j e c t e d		2010-11
A. <u>Costs of the Recommended Program</u> <sup>A/</sup>								
Capital Investment	...	...	...	...	...	...	...	...
Operating	358.3	376.7	544.7	608.3	631.3	670.2	596.1	605.6
Current Lease Payments	...	...	...	...	...	...	...	...
Total	358.3	376.7	544.7	608.3	631.3	670.2	596.1	605.6
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Average rate of return on investments.	2.42	2.28	2.37	2.36	2.41	2.50	2.56	2.56
2. Average time between audits (years) Internal Audit Program.	5	6	7	7	6	6	6	6
3. Average number of days to issue a refund check.	15	15	15	15	15	15	15	15
4. Percent of tax returns audited resulting in adjustments.	80	80	80	80	80	80	80	80

<sup>A/</sup> Expenditures in millions of dollars from all funds.

## GENERAL SERVICES

The objective of the General Services sub-program is to assist in achieving State objectives by providing logistical, technical, and professional supporting services to all State agencies. This Level II program is composed of 21 lowest-level programs that are administered or operated by DAGS, AG, B&F, DHRD and DLNR.

As the program title implies, General Services provides support to all agencies. Services provided include: representing the State in all criminal and civil cases; recruiting and retaining qualified and competent government employees; managing retirement and health insurance programs for employees and retirees; providing information processing services; screening records and scheduling records for retention or destruction; supervising construction of State buildings; maintaining State facilities; managing public lands; central purchasing; providing motor pool and parking control services; and telephone and messenger services. It is noted that this does not reflect the total effort of the State in these support services. For example, custodial and grounds maintenance services are also internally provided by UH and DOE and the Department of Transportation (DOT) and the Hawaii Health Systems Corporation. Also, UH and the Department of Agriculture and DOT provide motor pool services for their respective departments.

### Risk Management

Chapter 41D, HRS, provides the Risk Management program the authority and responsibility of protecting the State government against catastrophic losses.

The program identifies and analyzes the State's loss exposures, determines risk that should be self-insured versus commercially insured, purchases applicable statewide property, crime, and liability insurance policies with cost effective terms, and coordinates loss control programs to minimize accidental and fortuitous losses. The program also manages and controls a statewide risk management revolving fund, settles informal tort claims up to \$10,000, adjusts automobile claims and property losses, and performs other risk management services. The purpose of these activities is to ensure that losses of the State are controlled and financed on a well-coordinated statewide basis.

### Information Processing Services

The Information Processing Services (IPS) program, administered by the Information and Communication Services Division (ICSD), provides statewide leadership and direction in optimal use and management of information technologies. The program strives to deliver effective and efficient

information processing services to Hawaii State Government to solve problems, improve the delivery of public service and public access to information, and operate more efficiently. Activities of the program include:

- Improving management of information technology initiatives and projects in the State.
- Developing and implementing services on the State's intranet (internal network) to advance the State's movement towards electronic government.
- Expanding and enhancing the State's Telecommunications infrastructure to enable more State offices to be connected to HiGov.net (Intranet portal) and facilitate interaction with other government jurisdictions including Judiciary, Legislature, UH, DOE, counties, and federal agencies.
- Enabling greater use of the Internet for increased productivity such as improving interoffice communications, gaining access to more information sources, enhancing the public's access to government information and services, and electronic commerce.
- Developing a security office and implementing security measures to monitor and analyze cyber attacks on State networks, web servers, and other systems; and preparing to support future federal and State homeland security requirements.
- Ensuring the stability and survivability of the State's computing and network facilities, systems, and data, including backup/disaster recovery capabilities.

#### Construction and Office Leasing Programs

The Public Works Division consists of two programs: the Construction program (AGS 221) and the Office Leasing program (AGS 223).

The Public Works Division's Construction program (AGS 221) plans, coordinates, organizes, directs and manages a centralized program of architectural and engineering services for State agencies and for the Judiciary upon request, including land acquisition for specific projects, planning, design, project management, construction management, and furniture and equipment acquisition for capital improvement and other projects. The program also provides design and construction services for the repair and maintenance (R&M) of public schools and public buildings in coordination with DAGS Central Services Division and DOE.

In designing facilities, spaces provided are optimized in terms of size, configuration, location, necessary utilities and budget. The program attempts to provide these spaces as economically as possible, by striking a balance between function, materials, aesthetics, and need.

Continuing costs of operation are also factored into the design by materials selected and incorporating energy efficient systems such as lighting, electrical systems and ventilation systems as applicable. Finally, the program's goal is to expedite the design and construction of facilities so that the facilities are available for use by user agencies when required.

### State Procurement

The Procurement Policy Board (PPB) and the State Procurement Office (SPO) were established to serve as the single source of public procurement policy to be applied equally and uniformly to the State and counties. The board is administratively attached to DAGS, having authority and responsibility to adopt rules governing the procurement, management, control and disposal of any and all goods, services and construction. The seven-member PPB considers and decides matters of procurement policy including those referred to it by a chief procurement officer, and has the power to audit and monitor the implementation of its rules.

SPO, which serves as the central procurement office, is headed by an administrator who is the Chief Procurement Officer for the governmental bodies of the Executive Branch other than the Office of Hawaiian Affairs, UH and DOE. The responsibilities of the SPO for the Executive Branch include:

- Review and approval of requests from agencies for: procurement by sole source or emergency procurement; exemptions from Chapter 103D or Chapter 103F, HRS; use of restrictive or crisis purchases of services; extension of contracts; waiver of price list purchases; use of bid and performance security; use of restrictive specifications; and use of alternative procurement methods.
- Review and investigation of procurement violations.
- Procure or supervise procurement of all goods, services and construction.
- Direct State agencies through statewide purchase of health and human service activities regarding timeline of activities, planning schedules, gathering community input, various methods of procurement and exemptions, and contracting activities.

- Exercise general supervision and control over all inventories of State owned property.
- Manage, coordinate and maintain the acquisition, storage, transfer and distribution of federal and State surplus property.

The SPO administrator also serves all governmental bodies of the State and its counties by:

- Performing periodic review of procurement practices.
- Providing assistance, advice and guidance in matters relating to procurement, inventory and disposal of goods.
- Establishing and maintaining a central health and human services contracts data base.
- Developing and administering a statewide procurement orientation and training program.
- Developing, distributing and maintaining a procurement manual for State procurement officials and issuing a procurement guide for vendors wishing to do business with the State and its counties.
- Collaborating with the Hawaii Procurement Institute to promote and develop a professional acquisition workforce and to improve and enhance the State's contractor industrial base through education and training.

#### Hawaii Employer-Union Health Benefits Trust Fund

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was created by Act 88, SLH 2001, and replaced the Public Employees Health Fund on July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for State and county employees, retirees, and their dependents that are affordable to both the public employers and participants. The intent of the law was to increase negotiating leverage with health benefits carriers and create economies of scale through the consolidation of administrative functions. Chapter 87A, HRS, formally established the EUTF, and administrative rules pursuant to Section 87A-26, HRS, were adopted to implement the administration and purposes of the EUTF.

The EUTF provides medical, prescription drugs, dental, vision, and chiropractic health benefit plans for 64,000 active employees and 35,000 retirees and surviving beneficiaries. In addition, a life insurance plan is provided for each active employee and retiree. An additional 100,000

dependent-beneficiaries are covered to include domestic partners and students attending an accredited college, university, or technical school.

A ten-member Board of Trustees, appointed by the Governor, is responsible for determining the nature and scope of the benefit plans offered, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the EUTF, and overseeing all EUTF activities. The Board consists of five Trustees representing the public employers and five Trustees representing State and county employees, retirees, and their dependents.

#### Employees' Retirement System

ERS provides retirement, disability, and survivor benefits for State and county employees and retirees. ERS has 99,376 active, inactive vested, and retired members, with approximately \$8.6 billion in its investment portfolio.

The ERS falls under the policy and executive direction of a board of trustees with certain areas of administrative control vested in the State B&F. The Board consists of eight members: the State Director of Finance, four members elected by the membership, and three citizens of the State appointed by the Governor.

The capital investment and operating costs and measures of effectiveness for the General Services sub-program are presented in Table II-3.

#### General Services Operating and CIP Costs

Operating and current lease payment costs of \$676.4 million in FY 2006 are projected to rise to \$705.0 million in FY 2011. Capital investment expenditures include funds for the renovation and construction of office building and various other projects. It is noted that no capital investment costs are reflected for the planning period because projects are under review.

Measures of Effectiveness in the General Services sub-program, are necessarily varied and reflect the diverse characteristics of the component programs. As support programs, effectiveness and activity indicators are strongly influenced by fluctuations in demands and levels of activity in many "primary output" programs served.

- Measure No. 1 indicates the percentage of departmental records that are on a records retention and destruction schedule.

- Measure No. 2 indicates the ability of DHRD to provide departments with a list of eligible applicants to fill positions.
- Measure No. 3 indicates the percentage of contract grievances that are settled without third party assistance; essentially, this includes all grievances resolved prior to arbitration.
- Measure No. 4 reflects the percentage accuracy of pre-bid estimates vs. actual bid prices for bids opened during a given fiscal year.



TABLE II-3  
INVESTMENT AND OPERATING COSTS  
GENERAL SERVICES

	F i s c a l   Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	P r o j e c t e d		
						2008-09	2009-10	2010-11
A. <u>Costs of the Recommended Program</u> <sup>A/</sup>								
Capital Investment	11.5	29.2	33.9	15.8	...	...	...	...
Operating	465.9	580.8	670.6	668.2	677.3	688.5	692.9	697.4
Current Lease Payments	5.8	5.8	5.8	7.6	7.6	7.6	7.6	7.6
Total	483.2	615.8	710.3	691.6	684.9	696.1	700.5	705.0
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Number of State record series under control schedule as a percentage of total record series in the State agencies.	29	29	29	29	29	29	29	29
2. Average turnaround time to refer eligibles.	28	21	21	21	21	21	21	21
3. Percent of contract grievances settled without 3rd party assistance.	95	90	90	90	90	90	90	90
4. Average pre-bid construction estimate as a percent of average bid price.	111	100	100	100	100	100	100	100

<sup>A/</sup> Expenditures in millions of dollars from all funds.

### III. PROGRAM CHANGE RECOMMENDATION

There are no significant program change recommendations for FB 2003-05 in the Government-Wide Support Programs.

### IV. EMERGING CONDITIONS, TRENDS AND ISSUES

#### Statewide Land Use Management

Population growth in the State continues to create new demands for urban lands. At the same time, there are growing concerns regarding the need to protect our natural resources, including our prime agricultural lands, mountains, and shoreline areas, and to ensure that development occurs in areas with adequate water resources and that existing public infrastructural improvements are adequate to accommodate additional growth. There is also a need to look at more efficient use of our existing urban areas.

Questions regarding the role of the State in land use matters will continue to be raised, particularly as the counties develop their land use planning capabilities. Evaluation of the existing system and methods to improve the system should continue. Efforts should also continue to identify areas which need to be protected and areas where future growth may occur, and to develop improved analytical tools including geographic information system technology to assist planners and decision-makers.

Concerns will continue to be raised regarding the land use regulatory tools in place today, and there will be continued efforts to streamline the land use permit process. At both the State and county levels, the question of impact fees and other measures relative to assuring adequate provision of infrastructure for proposed developments will continue to be examined.

Court decisions will continue to have an impact on land use regulatory programs (i.e., PASH, Ka Pa'akai o ka aina), including decisions related to native Hawaiian legal rights.

#### Economic Planning and Research

Reductions over the last several budget periods in the program's general fund resources made the program explore alternative means of disseminating information. The program has turned to electronic dissemination of information as the only viable conduit for most of the statistical and economic information produced by the program outside of tourism information. The program has initiated a series of online publications including the e-report series, the online and

CD-ROM versions of the State Data Book and the online Quarterly Statistical and Economic Report.

The program continues to seek ways to economize, including careful consideration of research priorities, staff development to permit all research needs to be performed in house, and elimination of numerous subscriptions and publications.

#### Revenue Collection

The mission of TAX is to administer the tax laws of the State of Hawaii in a consistent, uniform, and fair manner. To this end, the department is dedicated to promoting and achieving a high level of voluntary compliance (i.e., where taxpayers voluntarily pay the proper taxes on a timely basis) by educating taxpayers of their tax obligations and executing timely, efficient, and effective compliance initiatives to minimize noncompliance and best utilize its limited resources.

During this past year, the department's tax compliance program collected \$156.4 million in delinquent taxes, surpassing its \$150 million goal. Over the last two fiscal years, the department has collected a combined \$75 million more than the highest ever collected. These collections show that the department is recovering an increasing amount of non-remitted taxes properly owed to the State. The department hopes to be able to increase the number of audit and collections staff to maximize collection of delinquent taxes and encourage voluntary taxpayer compliance with State tax laws.

The department also implemented the business tax component of its new computer system in October 2004, and has now successfully completed its five-year project to develop a single, integrated tax information management system to replace the two separate income tax and business tax computer systems. The result of the successful implementation will be improved services to Hawaii taxpayers and more efficient administration of taxpayer accounts. On-going production support and workforce development will ensure that the new computer system can operate at its potential to meet continuing changes in the economy and the law.

#### Debt Service Requirements

The State debt service requirements account for approximately 98% of the Fiscal Management sub-program for the next biennium. The State Constitution requires that interest and principal payments of general obligation bonds shall be the first charge on the general fund of the State. Table IV-1 indicates the magnitude of this obligation. From FY 1986 to FY 2003, general fund debt service requirements have increased from \$243.64 million to \$429.46 million. Debt service requirements decreased to \$323.80 million in FY 2004 due to

the result of refunding/restructuring of general obligation bonds issued in 1998. Debt service requirements will again increase to \$344.72 million in FY 2005 and will gradually increase to \$638.77 million in FY 2009 and then decrease to \$574.16 million in FY 2011, or 66.56% over FY 2005.

Table IV-1

General Fund Debt Service  
(in millions)

<u>Fiscal Year</u>	<u>Outstanding General Obligation Bonds</u>	<u>Debt Service</u>	<u>General Fund Expenditures</u>	<u>Debt Service as % of Total General Fund Expenditures</u>
1984	\$1,641.60	\$210.18	\$1,379.00	15.24%
1985	1,697.55	229.48	1,451.10	15.81%
1986	1,734.90	243.64	1,597.80	15.25%
1987	1,823.62	250.99	1,687.70	14.87%
1988	1,847.94	254.80	1,944.30	13.10%
1989	1,978.01	260.69	2,099.50	12.42%
1990	2,026.09	267.20	2,624.60	10.18%
1991	2,274.85	279.61	2,809.60	9.95%
1992	2,328.55	297.74	2,672.40	11.14%
1993	2,767.69	289.83	2,965.27	9.77%
1994	2,872.49	330.33	3,059.40	10.80%
1995	2,934.96	355.14	3,169.10	11.21%
1996	2,851.17	419.97	3,123.70	13.44%
1997	3,102.29	421.10	3,128.70	13.46%
1998	3,387.99	387.73	3,173.64	12.22%
1999	3,189.30	377.67	3,243.94	11.64%
2000	3,299.86	370.97	3,130.30	11.85%
2001	3,244.86	386.66	3,264.27	11.85%
2002	3,584.90	399.43	3,651.12	10.94%
2003	3,648.37	429.46	3,803.11	11.29%
2004	3,966.37	323.80	3,881.50	8.34%
2005 (Est.)	4,279.93	344.72	4,154.70	8.30%
2006 (Est.)	4,512.02	512.863	4,513.90	11.36%
2007 (Est.)	4,596.19	576.86	4,631.50	12.46%
2008 (Est.)	4,514.32	599.91	4,707.70	12.74%
2009 (Est.)	4,342.62	638.77	4,815.90	13.26%
2010 (Est.)	4,225.13	564.69	4,819.70	11.72%
2011 (Est.)	4,079.77	574.16	4,897.60	11.72%

By FY 2011, debt service is projected to account for approximately 11.72% of the State's total general fund expenditures. The general obligation bond debt service projections are based on issuing \$500 million in FY 2006, \$400 million in FY 2007, \$250 million in FY 2008, and \$200 million per year in FY 2009 through FY 2011. Interest rates on the proposed general obligation bonds are estimated at 5.70% for FY 2005 to FY 2007 and 6.00% for FY 2008 to FY 2011.

The State Constitution establishes limits on State borrowing. Under Article VII, Section 13, the State may issue general obligation bonds provided that such bonds at the time of issuance would not cause the total amount of principal and interest in any fiscal year to exceed 18-1/2% of the average defined general revenues for the immediate preceding three fiscal years.

In addition, in every general law authorizing the issuance of general obligation bonds, the Legislature must include a declaration of findings that the principal and interest estimated for those bonds, and all other bonds that have been authorized, whether issued or un-issued, would not cause the debt limit to be exceeded at the time of issuance.

#### Risk Management

Due to the October 30, 2004 flood at the UH at Manoa, the program is requesting an emergency appropriation to increase the spending ceiling for FY 2005 and a biennium budget request to increase the spending ceiling for FY 2006 and FY 2007 to cover the anticipated flood damage losses. The total damage estimate is not known at this time.

#### Construction and Office Leasing Programs

Act 51, SLH 2004, transfers certain rights, powers, functions, duties and resources of the AGS 221 Construction program as well as portions of other DAGS programs to DOE effective July 1, 2005, unless repealed or amended by subsequent legislation.

The program supports the intent of Act 51 to reduce bureaucracy and to improve responsiveness and service delivery to DOE. However, should a portion of current positions, estimated up to over half of the program's staffing, be transferred to DOE, as well as transfer of funds, inventory, and other assets, this may have a major impact on the program's ability to provide support and timely construction services to other State agencies.

Analyses have been conducted on workload, work processes and staffing to determine amount of services rendered to DOE. Studies have been conducted on the effects of such transfers to the program and its ability to continue effective levels of support to other agencies statewide. The program is also exploring ways to provide excellent customer service, to increase its customer base and to internally streamline procedures to operate in a more efficient manner.

With regard to the Leasing Program, the Honolulu office market appears healthy, as a result of positive economic conditions in Hawaii. Honolulu's office market is continuing to post

positive absorption of office space, as more than 250,000 square feet of space was leased to new tenants over the last year, and vacancy rates fell from about 13.75% at mid-year 2003 to 11% at mid-year 2004. Honolulu's commercial real estate professionals are generally upbeat, and feel that Honolulu's office market may start reflecting rental rate increases by the end of this calendar year. On the neighbor islands, gross rental rates for office space near main business districts continue to match or exceed the Honolulu Central Business District's lease rates.

The Leasing program is continuing to pursue the reduction of office space and related cost reductions through lease terminations, rent renegotiations, and consolidation of office space. However, requests for new space and expansion of existing offices are continuing for certain departments in order to meet requirements relating to federal mandates such as "No Child Left Behind" and other legislation, disaster preparedness, etc.

#### State Procurement

Significant conditions, trends and issues affecting other areas of State government are impacting the procurement environment. Rapid advances in technology are offering a myriad of opportunities for advancements in productivity. The Internet, electronic business, and paperless offices are only a few of the areas to be further researched for procurement applications. The competition for resources will continue and probably heighten. Higher taxpayer expectations for efficient, effective and trustworthy government operations are anticipated. SPO personnel will be challenged to do more with less, to exercise more creativity and flexibility, and to deliver faster quality services to their customers.

Initiatives being pursued by the SPO are three-fold:  
1) capitalize on technology, 2) improve current processes, and 3) nurture a procurement knowledge community. In the technology arena of eProcurement, changes include on-line request for quotations, electronic catalogs, and competitive sealed bids and proposals. Similarly, expanding the use of purchasing cards, in lieu of purchase orders for payment, is being advocated.

#### Legal Services

Over the years, marked increases in the responsibilities and services of the Legal Services program have occurred. Increases have come primarily in the areas of tort litigation, employment law, and family law. In addition, regular workload demands in the areas of education, human services, and health persist. In the past, class action lawsuits, federal court monitoring, and consent decrees, many of which will continue into the foreseeable future, have impacted these areas and

required an additional focus of legal services resources. Other areas that demand Legal Services program attention include antitrust actions on behalf of the State and collections and recoveries on behalf of clients.

As the chief law enforcement agency of the State, AG is the only agency to have statewide jurisdiction to prosecute criminal violations. Therefore, the Legal Services program continues to take an active role in the criminal arena. Besides ongoing prosecutions of welfare fraud, illegal tobacco products, white-collar financial and Internet crimes, recent efforts includes environmental crimes and drug nuisance abatement with the closing of drug houses have shown themselves to be fruitful. Also, the Department has established a Cold Case Unit to investigate and prosecute unsolved murders throughout the State.

#### Employees' Retirement System

Pension accumulation requirements (all means of financing) to fund the ERS total \$312.8 million in FY 2006 and \$318.3 million in FY 2007, an increase of \$61.1 million and \$66.6 million, respectively, over FY 2005 levels. Act 181, SLH 2004, changed the methodology used to compute employer contributions for State and county government employees' retirement benefits. Beginning in FY 2006, employer contributions are based on a statutorily set percentage of members' compensation. Employers will contribute 15.75% of compensation for police officers, corrections officers, and firefighters, and 13.75% of compensation for other employees.

Funding for additional positions (retirement claims examiner supervisor and an accountant) are being requested to meet projected work increases attributed to the new Hybrid Plan (Act 179, SLH 2004); improve customer service; improve the pension benefit computation and payment process; and improve the internal controls over ERS' funds to ensure the safeguarding of assets.

#### V. Selected Problems for Possible Study

In Section IV, background information was presented on problems and issues in the Government-Wide program area. The study of these problems and issues should lead to alternative courses of action that could significantly increase the effectiveness of the program.